

Conference Call in English

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Tarpon Investimentos

2009 Earnings Results - Conference Call

Operator: Good morning ladies and gentlemen, welcome to Tarpon Investimentos 2009 Earnings Results conference call. Thank you for standing by. Today's live webcast and presentation may be accessed through Tarpon's website at www.ccall.com.br/tarpon.

We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the company's presentation. After Tarpon's remarks there will be a Question & Answer session. At that time further instructions will be given. If you wish to send questions by email please address to ir@tarponinvest.com.br. Should any participants need assistance during this call please press star zero (*0) to reach the operator.

Before proceeding let me mention that this presentation may contain forward-looking statements which are based on the beliefs and assumptions of Tarpon's management and on information currently available to the Company. They involve risks and uncertainties and actual results may differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Eduardo Mufarej, Investor Relations Officer. You may now begin sir.

Mr. Eduardo Mufarej: Hello everybody, thanks for attending this call. Just before moving into the results I would just like to make a quick remark. As most of you are aware, 2009 was a somehow complicated year for the alternative asset management industry as a whole.

There was a very strong correction in the first half of the year that started actually in 2008 and we were ... we faced a very strong rebound during the second half of 2009 and of course this affected our results this year, and I think in a way that we can call positive, because it was ... 2009 was for sure a year of assurance for our business has gone through a very stressed scenario, where we were probably among the managers in Brazil that were able to survive the crisis in a most unspoiled way and our business evolved from an operating standpoint and also institutionally speaking.

On the investment side the last half of the year, as you probably know, was very, very active. We took the opportunity to divest from a number of holdings that we had invested from early 2008 onwards. It was we really took advantage of this market moving upwards and we have strengthened our current cash level and therefore we are, at this point, targeting new investment opportunities as well as allocating further capital to existing investments that we have.

So to make a long story shorter, I think the year was pretty much divided in two: the first was a moment, it was a very good moment to make new investments in the first half and in the second half a moment where exit opportunities were created due to the frenzy of international investors primarily into continuously making investments in Brazil, therefore allowing ourselves to exit some of our investments in companies that have operationally done extremely well, but where we no longer saw value drivers for us to remain invested in those given names.

I think concerning what is very important about us, not only the performance but also our asset base, I think really 2009 was a year that we tested our effectiveness in building an aligned and qualified investor base and the stickiness of our capital was definitely reassured as you will see in the results.

So now I will move to the 2009 financial highlights, which are on page 3. Our assets under management at the end of December amounted to roughly R\$ 4 billion. That is an increase of 55% over 2008.

As far as growth we received R\$ 478 million in new commitments, new capital coming into the funds, while the net commitments were 167 million and the net commitments mean the amount of subscriptions less the redemptions.

It is important to say that given the strong performance of our fund especially on the non-Brazilian vehicles moving up more than 120% on the year, we have been facing some investors making portfolio rebalancing, as in some of them we became the largest position due to the strong performance.

So I think it is going to be increasingly common to see smaller amounts of redemptions coming in and out of the fund from quarter to quarter and we do not see that as a concern. This will primarily be coming from portfolio balancing purposes and especially if we continue to perform well.

Revenues of Tarpon Investimentos S.A. (or TRPN3) derived from management fees and performance fees amounted to R\$ 43 million. It is important to highlight that on this amount there is only the full performance of 2Q, 3Q and 4Q due to the reorganization of TIG and the spin-off that was done in 1Q of the year.

As to performance, as I mentioned the funds in reais posted a return of 76%, while the funds in US dollars (the Tarpon Fund and the All Equities Fund) posted returns of 126 and 128% respectively. All that comes to a final result, which was an adjusted net income of R\$ 19 million for the year, where our dividend distribution should account for roughly R\$ 15 million considering already the 8 million that we already distributed in the last month of August.

Now I would like to move to page 4 where we disclosed our asset base composition. As I already said and most of you are aware, the quality of our investor base alongside TIG's capital has proven to be a successful strategy and a very strong position in the painful years of 2008 and 2009.

We have, as you probably know, a number of investors that come from endowments, foundations, sovereign wealth funds and pension plans and today this class of investors collectively represent 70% of AUM.

In addition to that, on the fund raising side everything that we have done continues to be through our in-house distribution platform and there is a strong aim in continuing to strengthen this positioning and therefore increasingly reducing the amount of dependence over third party marketers, that today amount for a very tiny fraction of our overall assets under management.

If we move to page 5, as you can see as of December 31 our assets under management amounted to R\$ 3.960 billion. That is a 55% increase compared to the 2.5 billion on December 31, 2008. Even compared to 3Q our assets under management increased by 17% and that is mainly a result of our very strong performance in the last three months of the year, as well as some results on the fund raising side.

Following our last quarter's trend, during 2009 our performance was the biggest catalyst for the growth in AUM, where performance corresponded to R\$ 1.2 billion out of the growth, and as I already said in terms of fund raising net inflows amounted to 167 million from a total of 478 million in new capital commitments.

In this page we can also see the disclosure by investment vehicle and category. It is important to just say that we adopt the very same investment philosophy and strategy for both, public and private investments and when we pursue an investment it comes very much from the same mindset and we understand that this flexibility is strategic for us to pursue the very best investment opportunities of each segment of the market regardless of its asset class.

And what I can say is that during 2009 undoubtedly the low valuation, the appalling low valuations observed in the Brazilian stock market were pretty much our core area, or if we may call our hunting ground. However, given where valuations have gone that may change over time.

Now moving to page 6 we have a more detailed view on the amount of subscriptions during the years, being the one in the darker color the gross figure. During 2009, as you can also see the long-only strategy pursued by the Tarpon Fund and the Fundo Tarpon, which is the Brazilian vehicle, posted net returns of 76% in Brazilian reais and 126% in US dollars, while our hybrid-equity strategy, which is primarily the Tarpon All Equities Fund, posted net returns of 128%.

I would like you to move now to page 7, where we talk about the revenues related to management fees. During the full year of 2009 our management fee revenues, as you can see, amounted to R\$ 36 million. That is a 3% increase when compared to 2008. During 4Q09 management fees were 10.2 million, which is a growth of 10% over the previous quarter.

Just a quick disclosure on this stat, the management fees are collected in a monthly and quarterly basis and they are a function of the assets under management and they vary from each account to the other and today they represent roughly 1.5%.

Now moving to page 8 we present a similar analysis regarding the revenues related to performance fees. Performance fees, as most of you are aware, are collected based on the performance of the funds while a certain hurdle rate is surpassed.

It is important to highlight that fund investors are charged this remuneration on distinct dates of the year, depending a lot on the characteristics of the fund. In the year of 2009 we collected R\$ 13 million as performance fee revenues. This amount was primarily a function of how much of the assets under management were above the high watermark during the year and at the time of the respective payment dates. We expect that today the investors under a high watermark are in a much more meaningful percentage relative to what was during the average of 2009.

It is important to disclose that, because as you can see also on this page, that the accumulated amount of potential performance fees to be collected during the year of 2010 amount to R\$ 81.5 million and this amount will be collected throughout the year based on the different performance fee payment dates of each investor or fund. Now I would like to move to page 9, where we talk about management fees and performance fees as revenues and as you can see our revenues amounted to R\$ 43 million, or actually R\$ 47 million if you take into consideration the management fees accounted to TIG in 4Q of the year. That let you pretty to a small growth in terms of management fees - as I disclosed it was of 3%.

But the decrease in revenues in the year, as you may have noticed, came primarily from the decrease in performance fees collected during 2009 and this was mainly due to the correction that the funds suffered in the year, in the latter part of 2008, and although we posted a strong recovery during 2009, the investments, our assets under management were outside of the high watermark.

Having said that, I would like to say that at this point the totality of our funds are above the high water mark; therefore if the funds continue to perform during this year, Tarpon should collect results of its services or of its operations through the collection of performance fees, of higher amount of performance fees during 2010.

On the expenses side, our recurring expenses amounted to R\$ 10.7 million and they represent 43% of total operating expenses and this is pretty much the payroll and the overhead costs of our group of 32 employees.

We have also distributed R\$ 11 million in terms of variable compensation and provisioned R\$ 3 million as stock option compensation to employees and executives and this has no cash impact.

At last we come to Tarpon's net income; adjusted net income amounted to R\$ 19 million and that the adjusted results reflect a reversion of the stock option plan provision, which again has no cash impact.

As already mentioned, but just I would like to highlight, our dividend distribution for the full year should amount to R\$ 15 million considering the 8 million already distributed in August 2009. This amount is equivalent to R\$ 0.37 per share, representing a 95% dividend payout, reinforcing our orientation towards being a strong dividend distributor.

I would like to thank you all and now open up the floor for questions.

Q&A Session

Operator: Thank you. Ladies and gentlemen, we will now begin the Question and Answer session. If you have a question please press the star key followed by the one key (*1) on your touch-tone phone. If at any time you would like to remove yourself from the questioning queue press star (*) two (2). Again, if you wish to pose a question please press star one (*1).

Mr. Mufarej: Well, having no questions I would like to thank you all for being on this call. We are entirely available for any follow-up questions you may have. For those who have questions in Portuguese, “perguntas em português, por favor nos procurem diretamente. Estamos completamente à disposição”. So have a nice day, “tenham um bom dia, até logo”.

Operator: Thank you. That does conclude the Tarpon Investimentos 2009 Earnings Results conference call. Thank you very much for your participation and have a good day.

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